

**BEFORE THE COMMISSIONER OF THE
INDIANA DEPARTMENT OF INSURANCE
STATE OF INDIANA**

IN RE THE MATTER OF:)
)
THE PROPOSED DEMUTUALIZATION OF)
)
ANTHEM INSURANCE COMPANIES INC.)

FILED
OCT 25 2001
STATE OF INDIANA
DEPT. OF INSURANCE

**FINDINGS OF FACT, CONCLUSIONS OF LAW AND
ORDER GRANTING APPLICATION WITH CONDITIONS**

Anthem Insurance Companies Inc., an Indiana mutual insurance company ("Anthem Insurance"), filed with the Indiana Department of Insurance (the "Department") on June **21, 2001**, an Application **for Approval** of its Plan of Conversion, attached to which was a plan of conversion (the "Plan") that was adopted on June **18, 2001** by Anthem Insurance's Board of Directors. Pursuant to the Plan, Anthem Insurance proposes **to** convert from a mutual insurance company to a stock insurance company (the "Conversion"), as permitted under Indiana Code 27-15 (the "Indiana Demutualization Law"). Under the provisions of the Indiana Demutualization Law, the Commissioner of the Indiana Department of Insurance (the "Commissioner*") must, following a public hearing, approve or reject the Plan and the Proposed Amended and Restated Articles of Incorporation of Anthem Insurance (Plan Exhibit A). If the Commissioner approves the Plan and the Amended and Restated Articles of Incorporation, the members of Anthem Insurance as defined in Indiana Code 27-15-1-9 (the "Statutory Member?") will vote on whether the Conversion should occur. The member information statement dated August **17, 2001**, as supplemented on October **1, 2001** (as so supplemented, the "Member

Information Statement”), distributed to Statutory Members and the Plan attached thereto serve as the basis for the vote of Anthem Insurance’s Statutory Members

Based upon Anthem Insurance’s application (including exhibits thereto and all supplements), other filings, records, files and the public hearing and proceedings in the above-captioned matter, the Commissioner makes the following:

FINDINGS OF FACT

I. Procedural History

1. Anthem Insurance is an Indiana domestic mutual insurance company.
2. On June 18, 2001, the Board of Directors of Anthem Insurance unanimously approved the Plan.
3. On June 21, 2001, Anthem Insurance filed with the Department an Application for Approval of the Plan (Hearing Exhibit A-1). On July 17 and July 20, 2001, the Commissioner requested that the application be supplemented (Hearing Exhibits A-2 and A-3). A supplement to the Application (Hearing Exhibit A-4) was filed on July 26, 2001 (as so amended and supplemented, the “Application”). The Application was deemed complete by the Commissioner on August 18, 2001 (Hearing Exhibit A-3).
4. Anthem Insurance proposes to convert under the Indiana Demutualization Law from a mutual insurance company to a stock insurance company and become a wholly-owned subsidiary of a newly formed stock holding company, Anthem, Inc., an Indiana corporation (“Anthem, Inc.”).
5. Under the Plan, immediately after the Conversion, Anthem Insurance will become a stock insurance company. All contractual rights of all policyholders of Anthem Insurance will remain with the converted Anthem Insurance. Eligible Statutory Members (as defined in the Plan) of Anthem Insurance will exchange their Membership Interests (as defined in the Plan) in Anthem Insurance for consideration in the form of common stock of Anthem, Inc. or cash. Those former Eligible Statutory Members of Anthem Insurance that receive shares of the common stock of Anthem, Inc. in exchange for their Membership Interests will become shareholders of Anthem, Inc. and have all the rights to which shareholders of Anthem, Inc. are entitled. All Membership Interests will be extinguished and will cease as of the effective time of the Conversion.
6. Pursuant to Indiana Code 27-15-4-2 and Indiana Code 4-22-2-26, a public hearing was held on October 2, 2001 at 10:00 A.M. at the Indiana Government Conference Center, Indianapolis, Indiana. Notice was mailed to each Statutory Member and policyholder of

- Anthem Insurance as required by Indiana Code 27-15-4-4 (Hearing Exhibit A-4), The notice was included as part of the Member Information Statement mailed by Anthem Insurance in which the Conversion was explained and Statutory Members were provided notice of the opportunity to elect the form of consideration they wish to receive.
7. Notice of the public hearing was made in Indianapolis, Indiana, the city in which the principal office of Anthem Insurance is located, by publication in the Indianapolis Star on August **27, 2001** and September **10, 2001**, as required by Indiana Code 27-15-4-5. Notice was also published in USA Today on August **27, 2001** and September **10, 2001** (Hearing Exhibits A-12, A-13 and A-14).
 8. As required by Indiana Code 4-22-2-26 and Indiana Code 27-15-4-6, all persons who attended the public hearing were given an opportunity to present information, views, arguments or comments about the Plan and Conversion. The Commissioner received written comments and questions prior to the hearing and provided the opportunity for attendees to submit written questions, which the Department incorporated into its questions.
 9. The persons who attended the public hearing on behalf of the Department were: Commissioner Sally McCarty, Gregory Thomas, Chief Deputy Commissioner, and Mark Pufahl, Chief Examiner; Richard Clemens and Robert Verigan of the law firm of Sidley Austin Brown & Wood, legal advisors to the Department; John Hompe, Grace **Vandecruze**, Louis Caltavuturo and Jennifer Wong of the investment banking firm of Fox-Pitt, Kelton Inc., financial advisor to the Department; Darryl Wagner, Patricia Matson, Rhonda Lessard, and Keith Bucich of Arthur Andersen LLP, actuarial advisor to the Department; and John Quinn and Brian Davis of **PricewaterhouseCoopers** LLP, accounting advisor to the Department. Anthem Insurance was represented by Tibor Klopfer, Emily Marshall and Adam Hirschfeld of the law firm of Baker & Daniels.
 - 1b. At the public hearing, Anthem Insurance presented witnesses who gave direct testimony in support of the Application and who were available for questioning by the Department and its advisors as to **matters** relevant to the proposed Conversion. Anthem Insurance's witnesses were: Larry C. Glasscock, President and Chief Executive **officer** of Anthem Insurance; David R. **Frick**, Executive Vice President and Chief Legal and Administrative Officer of Anthem **Insurance**; **Michael** L. Smith, Executive Vice President and Chief Financial Officer of Anthem Insurance; Susan D. Ulrey, Vice President Internal Audit and Chief Compliance Officer of Anthem Insurance; Daniel J. McCarthy, Principal and Consulting Actuary with Milliman USA; and Robert C. King, Managing Director with Goldman, Sachs & Co. Each of these witnesses as well as Cynthia S. Miller, Vice President and Chief Actuary of Anthem Insurance, also answered questions at the hearing. Anthem Insurance presented 31 exhibits which were included as part of the record of the hearing (Hearing Exhibits A-1 through A-31).
 11. The Department participated in the public hearing through the questioning of Anthem Insurance's witnesses, and through the presentation of three witnesses: Darryl G. **Wagner**, a partner with Arthur Andersen LLP; John J. Quinn, a partner with **PricewaterhouseCoopers** LLP; and John T. Hompe, Managing Director of Fox-Pitt,

Kelton Inc. The Department also submitted several additional exhibits for the record: the written testimony of the Department's three witnesses (Hearing Exhibits D-1 through D-3); communications from other state regulators (Hearing Exhibit D-4); communications from policyholders and other interested parties (Hearing Exhibit D-5); the opinion of Mr. Wagner, relating to actuarial matters concerning the absence of a closed block and the reasonableness, fairness and equity of Anthem Insurance's allocation of consideration among Eligible Statutory Members (Hearing Exhibit D-6); and the opinion of Fox-Pitt, Kelton Inc., with respect to the fairness, from a financial point of view, of the aggregate consideration payable under the Plan (Hearing Exhibit D-7).

12. The Department received written comments from various policyholders, regulators and interested parties. The Department also asked Anthem Insurance's witnesses questions which had been received from members of the public attending the hearing. In addition, oral testimony was received at the hearing from **DeAnne Woodford** of United Senior Action; William Springer of Sullivan, Indiana; Charles Storms of Evansville, Indiana; Mary Ann Watkins of Columbus, Indiana; Darryl L. **Fortson**, M.D. of Gary, Indiana; Jerry Delp of **Carmel**, Indiana; Julia Vaughn of Citizens Action Coalition, Indianapolis, Indiana and Dawn Touzin of Community Catalyst, Boston, Massachusetts.
13. The Commissioner adjourned the public hearing at approximately **4:45** P.M.
14. The Department kept the record open until 5 p.m. Eastern Standard Time, on October 12, 2001 for the limited purpose of receiving (i) the opinion of Mr. Wagner, (ii) the opinion of Fox-Pitt, Kelton Inc. and (iii) information from Anthem Insurance and the Department's advisors concerning restrictions on the purchase by directors and senior management of Anthem Insurance of stock of Anthem, Inc. for a limited period following the initial public offering (the "**IPO**"). On October **18, 2001** Anthem Insurance filed with the Department a Form D in connection with the proposed execution of certain corporate guarantees (the "Indiana Form D Filing").

II. Description of Anthem Insurance

15. Anthem Insurance is an Indiana domestic mutual insurance company. Its executive offices are located in Indianapolis, Indiana. As a mutual company, Anthem Insurance has no capital stock and no stockholders.
16. Anthem Insurance is one of the nation's largest health benefits companies, serving over 7.5 million customers, primarily in Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. The company states that it holds the leading market position in seven of these eight states and owns the exclusive right to market its products and services using the Blue Cross@ Blue Shield@, or BCBS, names, and marks in all eight states under license agreements with the Blue Cross Blue Shield Association, or BCBSA, an association of independent BCBS plans.
17. Anthem Insurance's products include a diversified mix of managed care products, including Health Maintenance Organizations or **HMOs**, Preferred Provider Organizations or **PPOs**, and Point of Service POS plans, as well as traditional indemnity products.

Anthem Insurance also offers a broad range of administrative and managed care services and partially insured products for employer self-funded plans. These services and products include underwriting, stop loss insurance, actuarial services, provider network access, medical cost management, claims processing and other administrative services. In addition, Anthem Insurance offers customers several specialty products including group life, disability, prescription management, workers compensation, dental and vision. For its insured products, Anthem Insurance charges a premium and assumes all or a majority of the health care risk. Under its self-funded and partially insured products, Anthem Insurance charges a fee for services, and the employer or plan sponsor reimburses Anthem Insurance for all or a majority of the health care costs.

18. The company was formed in 1944 under the name of Mutual Hospital Insurance, Inc., commonly known as Blue Cross of Indiana. In 1946, Mutual Medical Insurance Inc., also known as Blue Shield of Indiana, was incorporated as an Indiana mutual insurance company. In 1985, these two companies merged under the name Associated Insurance Companies, Inc. In 1993, Southeastern Mutual Insurance Company, a **Kentucky-**domiciled mutual insurance company doing business as Blue Cross and Blue Shield of Kentucky, was merged into the company. In 1995, Community Mutual Insurance Company, an Ohio-domiciled mutual insurance company doing business as Community Mutual Blue Cross and Blue Shield, was merged into the company. The company changed its name to Anthem Insurance Companies, Inc. in 1996. In 1997, Blue Cross & Blue Shield of Connecticut, Inc., a Connecticut-domiciled mutual insurance company, was merged into Anthem Insurance. Anthem Insurance completed its purchases of New Hampshire-Vermont Health Service, which did business as Blue Cross and Blue Shield **of** New Hampshire, and Rocky Mountain Hospital and Medical Service, which did business as Blue Cross and Blue Shield of Colorado and Nevada, during 1999. In 2000, Anthem Insurance completed its purchase of Associated Hospital Service of Maine, which did business as Blue Cross and Blue Shield of Maine.
19. Anthem Insurance issued guaranty policies in connection with its 1993 merger with Southeastern Mutual Insurance Company, its 1995 merger with Community Mutual Insurance Company and its 1997 merger with Blue Cross & Blue Shield of Connecticut, Inc. Those guaranty policies (and certificates of membership issued in connection with those guaranty policies) have been issued to protect and preserve the membership interests of the members of the acquired mutual companies and of certain customers of the successor insurers to those acquired mutual companies. In addition, under those guaranty policies, Anthem Insurance directly guarantees the health care benefits provided **under** the related insurance or other contracts of (i) Anthem Health Plans of Kentucky, Inc. d/b/a Anthem Blue Cross and Blue Shield, a Kentucky corporation ("**Anthem-Kentucky**"), (ii) Community Insurance Company d/b/a Anthem Blue Cross and Blue Shield, an Ohio stock insurance company ("**Anthem-Ohio**"), and (iii) Anthem Health Plans, Inc. d/b/a Anthem Blue Cross Blue Shield, a Connecticut stock insurance company ("**Anthem-Connecticut**"). Anthem Insurance has received certain necessary regulatory approvals to permit it to cease issuing or renewing guaranty policies after the consummation of the Plan (Hearing Exhibits A-21, A-23 and A-25).

20. On May **30, 2001**, Anthem Insurance signed a definitive agreement with Blue Cross and Blue Shield of Kansas, Inc. ("**BCBS-KS**"), pursuant to which it agreed to acquire BCBS-KS for \$190 million in cash, subject to various conditions, including regulatory approval (Bearing Exhibit. **A-4**, Exhibit 3 to Supplement No. 1).

III. Description of the Conversion

21. The Plan provides that Anthem Insurance will convert from a mutual insurance company and will become a wholly-owned subsidiary of Anthem, Inc. The Conversion is commonly referred to as a "demutualization." Under the Plan, "Eligible Statutory Members" will receive consideration equal in value to the fair value of Anthem Insurance at the time of the Conversion in the form of Anthem, Inc. common stock or cash, in exchange for their Membership Interests in Anthem Insurance. Membership Interests consist principally of the right to vote on matters submitted to a vote of Statutory Members (including the election of directors) and the right to participate in any distribution of **cash**, stock or other consideration in the event of (i) a conversion of Anthem Insurance to a stock insurance company under the Indiana Demutualization Law or (ii) a dissolution of Anthem Insurance. If the plan becomes effective, all Membership Interests in Anthem Insurance will be extinguished and Statutory Members will no longer have any voting or other ownership rights with respect to Anthem Insurance. In exchange for the extinguishing of their Membership Interests, Eligible Statutory Members will receive consideration in the form of Anthem, Inc. common stock or cash.
22. Under the Indiana Demutualization Law, membership in a mutual insurance company is determined by the articles of incorporation, by-laws and records of the company. Anthem Insurance and its **subsidiaries** have over seven million customers. Approximately one million of those customers are Statutory Members of Anthem **Insurance**. Under the Indiana Demutualization Law, only Statutory Members of Anthem Insurance may vote on the Conversion and only Eligible Statutory Members may receive consideration when the Conversion becomes effective.
23. "Statutory **Members**" are certain customers of Anthem Insurance who have voting and other ownership rights in Anthem Insurance under its Articles of Incorporation, By-Laws and records because they hold **an** insurance policy, certificate, health benefits contract or certificate of membership (including a certificate of membership issued under a guaranty policy) issued by Anthem Insurance that is in force. A **Statutory** Member is entitled to vote on the Plan if the person or entity was a Statutory Member on June **18, 2001**, the date the Board of **Directors** approved the Plan and adopted a resolution recommending the Plan and the Amended and Restated Articles of Incorporation to its Statutory Members. The fact that an employer has paid premiums on a group insurance policy does not confer status as a Statutory Member on the employer if the policy or certificate of membership and records of Anthem Insurance provide that membership rests with the individual employees.
24. "Eligible Statutory Members"* are persons who (i) were Statutory Members on June 18, **2001**, (ii) continue to be Statutory Members on the effective date of the Plan and (iii) have had continuous health care benefits coverage with the same company (either

Anthem Insurance or its Blue Cross and Blue Shield subsidiaries in Kentucky, Ohio or Connecticut) during the period between those two dates without a break in coverage of more than one day. Pursuant to the Plan, eligibility is determined according to the records of Anthem Insurance as of the date of determination or such other procedures as may be acceptable to the Commissioner. The Commissioner finds it acceptable to determine eligibility as of June **18, 2001** according to the records of Anthem Insurance as of the effective date of the Conversion and directs that such determinations as to eligibility shall be made in accordance with this requirement. Under Indiana Code **27-15-1-7** and the Plan, any person who is removed from Anthem Insurance's records as a Statutory Member prior to the effective date of the Conversion as a result of termination of an insurance policy, death of the Statutory Member or otherwise is not eligible to receive consideration under the Plan.

25. Under Anthem Insurance's Articles of Incorporation, By-Laws and records, a number of customers are not Statutory Members, such as customers of certain subsidiaries of Anthem Insurance. Customers of Anthem Health Plans of New Hampshire, Inc., Rocky Mountain Hospital and Medical Service, Inc. and Anthem Health Plans of Maine, Inc. are not Statutory Members. These three non-profit companies were acquired by Anthem Insurance for aggregate consideration of approximately \$373 million and, unlike mutual companies, were not owned by their members or customers. The net proceeds paid by Anthem **Insurance** for these companies were used to establish charitable foundations.
26. Customers under self-funded, Administrative Services Only, or **ASO**, arrangements are generally not Statutory Members. Individual certificate holders under group Policies issued to groups by Anthem Insurance's Kentucky, Ohio and Connecticut subsidiaries prior to its mergers with those former mutual companies are not Statutory Members (the group policyholders are Statutory Members). Group policyholders in Indiana are not Statutory Members (the individual **certificate** holders under those group Policies generally are Statutory Members).
27. Group **policyholders** that became customers of Anthem Insurance's Kentucky; Ohio and Connecticut subsidiaries after its mergers with those former mutual companies are not Statutory Members (the individual certificate holders under those group policies are Statutory Members). Customers participating in the Federal **Employee** Program, or PEP, are not **Statutory** Members (except for PEP customers in Ohio who are covered under a Health **Maintenance** Plan). The trustee of certain trusts established for the administrative **convenience** of an Anthem company are not Statutory Members (the participants in those trusts are Statutory Members).
28. On and after the effective date of the Conversion, Anthem Insurance will cease issuing or renewing guaranty policies. At the same time that it ceases to issue or renew guaranty policies for a subsidiary, Anthem Insurance will issue a corporate guaranty to the subsidiary to replace the financial guarantee previously provided by the guaranty policies (Hearing Exhibits A-20, A-22 and A-24). Generally, under the corporate guaranty, Anthem Insurance will guarantee payment of all sums due for health benefits under the health insurance policies and other health benefits contracts (subject to the terms and conditions of those policies and contracts) of Anthem-Kentucky, Anthem-Ohio, and

Anthem-Connecticut, as applicable. In the event of the insolvency of Anthem Insurance, a corporate **guaranty** will have a lower priority in payment than the guaranty policies, would have **and will not entitle** the former guaranty policy holder to any applicable guaranty fund **coverage**. The form of the corporate guaranty has been approved by the Connecticut Department of Insurance, the Kentucky Department of Insurance and the Ohio Department of Insurance (Hearing Exhibits A-21, A-23 and A-25), and the Indiana Form D Filing with respect to the forms of corporate guarantee is pending before the Department.

29. In order to raise capital in the public equity markets, Anthem, Inc., will, subject to compliance with securities laws and other requirements, sell shares of Anthem, Inc. common stock to the public in the IPO. The equity capital raised in the IPO will be used to reimburse Anthem Insurance for its costs incurred relating to the Conversion, for payment of cash to Eligible Statutory Members and for general business purposes. Eligible Statutory Members may elect to receive common stock of Anthem, Inc., and, if they do not elect stock or fail to return **the** stock election card, they will be assumed to prefer cash. There is a limit on the amount of cash available for distribution to Eligible Statutory Members and, accordingly, it is probable that many Eligible Statutory Members who prefer to receive cash as their consideration may receive shares of common stock instead.
30. Under the Plan, Anthem, Inc., Anthem Insurance and all of their subsidiaries will be prohibited from making a grant of common stock or options to purchase common stock to any **director**, executive officer or member of a specified group of senior management **executives** (approximately **50** in number) until the expiration of six **months after** the effective date of the Conversion. The Compensation Committee of the Board of **Directors of Anthem, Inc.** intends to grant, under its 2001 stock **incentive** plan, stock **options to purchase 100** shares of common stock to each of the approximately 15,000 **employees of Anthem Insurance** and its subsidiaries (other than the approximately **50 senior management executives described** above). **The** grant of stock options to this larger group of **employees** has no time **restrictions** as to when the grants could be made. Anthem, Inc. **also** intends to implement an employee **stock purchase** plan which will comply with Section 423 of the Internal Revenue Code.
31. Under the Plan, **a** small number of Eligible Statutory Members (certain large group customers) who **receive** and **continue** to hold 30,000 or more shares of Anthem, Inc. common **stock** in exchange for their Membership Interests will be restricted from selling or **transferring** their **shares** for 180 days except through **a** special sale program applicable to large holders..
32. In order to benefit Eligible Statutory Members who receive fewer than 100 shares of common **stock** of Anthem, Inc., the Plan provides that Anthem, Inc. will establish a **commission-free** program commencing between 180 days and 12 months after the Conversion which will permit holders of 99 or fewer shares to round up their shares to 100 shares or sell all of their shares on a commission-free basis.

33. Anthem Insurance has provided testimony that there will be no increase in policy premiums or change in **customers'** health care benefits as a result of the Conversion. Customers will not be **required** to change doctors as a result of the Conversion.
34. David R. **Frick**, Executive Vice President and Chief Legal Officer of Anthem Insurance, testified that the transactions contemplated by the Plan are intended to qualify as tax-free transactions under Sections 351 and 368 of the Internal Revenue Code (Hearing Exhibit A-27). A tax opinion from Ernst & Young dated August **14, 2001** was provided to the Statutory Members as part of the Member Information Statement (Hearing Exhibit A-8).
35. Anthem Insurance has sought a prohibited transaction exemption from the United States Department of Labor, in connection with the distribution of policyholder consideration to certain policyholders that are ERISA fiduciaries (Hearing Exhibits A-16 and A-17).
36. Anthem Insurance has sought a no-action letter from the United States Securities and Exchange Commission (the "SEC") requesting no-action with respect to Section **3(a)(10)** of the Securities Act of 1933, as amended, and related issues (Hearing Exhibit A-18).
37. Anthem Insurance's representatives testified at the hearing that, in light of current conditions in the financial markets, including the severe impact on the financial markets as a result of the tragic events of September **11, 2001**, the Board of Directors of Anthem Insurance concluded that it was in the best interests of **Anthem** Insurance, its Statutory Members and other **customers** to consider one or more "Other Capital Raising Transactions" to **raise** funds in addition to the proceeds of the **IPO**. Such transactions are permitted by Section 1.6 of the Plan, subject to approval of the Department. Anthem has registered with the SEC to sell up to \$230 million of additional securities, known as **Equity Security Units** (Hearing Exhibit A-7). Michael L. Smith, Executive Vice president and **Chief Financial Officer** of the Anthem Insurance, testified that he believed that the **offering and sale of the Equity Security Units "will help support the common stock offering and enhance our ability to achieve an optimum sale price."** Robert King, a **Managing Director of Goldman, Sachs & Co.**, testified that in light of recent volatility in the U.S. financial markets, **Goldman, Sachs** recommended **that** the company proceed with an offering of **Equity Security Units**. Mr. **King** stated that the conclusions in Goldman, Sachs' opinions **concerning** the fairness of the transactions, from a financial point of view, to **Eligible** Statutory Members have not been **affected** by the proposed offering of Equity Security Units.
38. In early October, **2001** Anthem Insurance mailed to its Statutory Members additional information **concerning** its proposed Plan, including information about the Equity Security Units, certain risks relating to Other Capital Raising Transactions and unaudited, pro forma **consolidated** financial information (Hearing Exhibit A-10).

IV. Company's **Rationale** for the Conversion

39. Over a period of years, Anthem Insurance has examined capital, strategic and structural alternatives to a mutual insurance company structure. Anthem Insurance has concluded that there are **significant** risks associated with continuing as a mutual insurance company

and that a change in corporate form from a mutual insurance company will best serve the interests of Anthem Insurance and its Statutory Members and other customers. Based on its analysis of changes in the health benefits industry, Anthem Insurance has concluded that increasing the company's financial flexibility through improved access to capital is critical to serving the best interests of Anthem Insurance and its Statutory Members and other customers. In reaching its decision to demutualize, Anthem considered a number of other alternatives including forming a downstream public holding company, selling Anthem Insurance in a sponsored demutualization, merging with another significant mutual insurer, reorganizing into a mutual insurance holding company structure, continuing as a mutual insurance company and converting to a charitable not-for-profit organization.

40. Representatives of Anthem Insurance stated at the hearing that the Conversion will improve its access to capital because Anthem, Inc. will be able to obtain equity capital from sources that are available to a stock company, but not to a mutual insurance company. Anthem Insurance, as a mutual insurance company, cannot issue or sell capital stock. Anthem, Inc., as a stock corporation organized under the Indiana Business Corporation Law, will be able to issue and sell stock to the public and will have other access to public and private capital markets that will give it far greater financial flexibility than is available to Anthem Insurance. The ability to raise capital in an initial public offering is an example of this enhanced financial flexibility.
41. Anthem Insurance believes that increased financial flexibility and access to capital will allow Anthem, Inc. and its subsidiaries, including Anthem Insurance, to expand existing, **business**, develop, new business opportunities, enhance its competitive position in the health benefits industry, enhance its ability to continue to deliver high quality products and services to their customers (**including** the Statutory Members and policyholders), and better assure its continued financial strength and stability. Anthem Insurance stated that **the Conversion** will make it possible to invest in new technology, Anthem Insurance **states** that the **ability to provide** equity-based incentive compensation plans and **comparable programs** (such as the stock incentive **plan**) in the same manner as many of Anthem **Insurance's** competitors will enhance its ability to **attract** and retain qualified **management** and other personnel whose dedication and service will benefit its customers (**including** the **Eligible** Statutory Members and other Statutory **Members** and policyholders).
42. Through the Conversion, Anthem Insurance's Eligible Statutory Members will receive the fair market value of Anthem Insurance as of the effective date of the Conversion (**before** giving effect to new capital raised in the **IPO** or Other Capital Raising Transactions) in exchange for their otherwise illiquid Membership Interests. Thus, Eligible Statutory Members will realize real economic value from their Membership Interests that is not available to them so long as Anthem Insurance remains a mutual insurance company. At the same time that Eligible Statutory Members and other Statutory Members and policyholders benefit from the Conversion, Anthem Insurance points out that there **will** be no increase in policy premiums or change in health care benefits as a result of the Conversion.

V. Form, Amount and Allocation of Consideration for Eligible Statutory Members

43. The aggregate consideration to be distributed to Eligible Statutory Members in exchange for their Membership Interests will be equal to the value of 100 million shares of Anthem, Inc. common stock (subject to possible adjustment as provided in Section 12.9 of the Plan). The amount of an Eligible Statutory Member's individual consideration will be based on an allocation of a specific number of shares of Anthem, Inc. common stock. Each Eligible Statutory Member will be allocated a minimum of 21 shares of Anthem, Inc. common stock as a fixed component of consideration, plus a variable component of consideration equal to the portion, if any, of the aggregate variable component of the consideration allocated with respect to such Statutory Member. The method of allocation of the variable component of the consideration is specified in Section 7.3 of the Plan and in the Actuarial Contribution Memorandum. The method of allocation, in general, determines the contributions made in the past and anticipated to be made in the future to Anthem **Insurance's** statutory surplus for each Eligible Statutory Member relative to all other Eligible Statutory Members. The variable component allocated to each Eligible Statutory Member will be zero or a positive number. The number of shares allocated to each Eligible Statutory Member will be rounded to the nearest whole share. The Member Record Card distributed to the **Statutory** Members along with the Member Information Statement contained an estimate of the number of shares of Anthem, Inc. common stock allocated to the recipient. The actual number of shares that will be received as consideration may vary from the estimate.
44. Upon the **Conversion**, every Eligible Statutory Member will be entitled to the shares of Anthem, Inc. common stock allocated to them, except for Eligible Statutory Members who must receive cash **because (i)** the Eligible Statutory Member's mailing address as shown on the records of Anthem Insurance is outside of the United States, **(ii)** the Eligible **Statutory** Member's receipt of common stock would, in the opinion of Anthem **Insurance's counsel**, fail to **comply** with the securities registration or other requirements or **exemptions of the applicable securities** laws of that state, or **(iii)** the requirements of registering the **common stock** in an Eligible Statutory **Member's** state of domicile would be **excessively** burdensome or **expensive** or would be likely to be subject to **unreasonable** delays. Eligible **Statutory Members** have been given the opportunity **to** express a **preference** to **receive Anthem, Inc.** common stock. Statutory Members who do not elect **stock** or fail to **return a stock election** card will receive cash, subject to the limitations **described** in the following paragraph.
45. Under the Plan, Anthem **Insurance** must use its best commercially reasonable efforts to distribute cash to a **substantial number** of **those** Eligible Statutory Members who prefer cash. However, there will be a limited amount of cash available for distribution, and representatives of **Anthem** Insurance have testified that it is likely that many Eligible Statutory Members who prefer cash may receive common stock instead. After distributing cash to Eligible Statutory Members who must receive cash under the Plan, in the event that there is insufficient cash to distribute to all Eligible Statutory Members who **prefer to receive** cash, cash will be **distributed** first to those Eligible Statutory Members with the fewest **number** of allocated shares, in increasing order, until all available **cash** is **distributed**. If cash is to be distributed to two or more Eligible Statutory

Members with the **same** number of allocated shares and there is insufficient cash available to pay **all such Eligible Statutory Members**, the Eligible Statutory Member with the earliest date of **coverage will** receive cash first, Once all of the available **cash** has **been** distributed to Eligible Statutory Members who are to receive cash under the Plan, all other Eligible Statutory Members will receive shares of Anthem, Inc. common stock.

46. Robert H. Dobson, Dale **S. Hagstrom** and Daniel J. McCarthy, consulting actuaries of Milliman **USA**, have delivered actuarial opinions dated June **18, 2001** pursuant to Indiana Code 27-15-3-2 (11). The opinions state in pertinent part: "In our opinion, the principles, assumptions, methodologies, and formulas used to **allocate** consideration among the Eligible Statutory Members of Anthem Insurance as set forth in Article VII of the Plan (including the Actuarial Contribution Memorandum, which is Exhibit F thereto) are reasonable and appropriate and consistent with the requirements of the Indiana, **Demutualization Law**, and the resulting allocation of consideration is fair and equitable to the Eligible Statutory Members." Mr. **McCarthy** testified at the **hearing** that the opinions delivered on June **18th** were **confirmed** as of the date of the hearing and **that the demutualization may not become effective unless these** opinions are reaffirmed again. An analysis of the **demutualization** prepared by MMC Enterprise Risk Consulting, Inc. an actuarial **consulting** firm, for the office of the Kentucky Attorney General was also included as part of the **record** (Hearing Exhibit D-4). The study, based on a limited review, **concluded that (i) the general** methodology for determining eligibility and defining the **actuarial contributions** provides fair **recognition** to the pre-merger value of **Southeastern Mutual Insurance Company, Inc.**, which was merged with Anthem **Insurance** in **1993**, and (ii) the proposed Plan "provides a fair and **equitable distribution of value to and among policyholders** of Anthem in the Commonwealth of Kentucky."
47. **Goldman, Sachs & Co.** has rendered a fairness opinion, as required by Indiana Code **27-15-3-2(10)**. In their opinion dated June **18, 2001**, **Goldman, Sachs** stated that **based on various assumptions and considerations** and "**based upon** market, economic and other conditions as of the date hereof and such other matters as we have **deemed relevant**, it is our opinion that as of the date hereof, the provision of shares of Molding Company [**Anthem, Inc.**] Common **Stock** or **cash** in **exchange for the aggregate Membership Interests** in **Anthem Insurance** in accordance with the **Plan** and the **Articles Amendment** is fair from **a financial point of view** to the policyholders who **are Eligible Statutory Members, taken as a group.**" In a **separate** opinion dated June **18, 2001**, based upon various assumptions and considerations and **based upon** market, **economic** and other conditions "**as of the date hereof and such other matters as we deem relevant**, it is our opinion that as of the date hereof that the **Current Assumed Value of the Aggregate Consideration [i.e., the aggregate value of consideration to be provided to Eligible Statutory Members based upon an estimated per share offering price]** is greater than the **Statutory Surplus of Anthem Insurance** as of March **31, 2001.**" At the hearing, Mr. King of **Goldman, Sachs** stated that the opinions delivered on June **18th** "**continue to be our opinions to date.**" Pursuant to Article IV of the Plan, these opinions must be reaffirmed to the Board of **Directors** of Anthem Insurance as of the effective date of the Conversion.

VI. The Closed Block

48. The **Indiana Demutualization** Law (Indiana Code **27-15-2-2(8)**) states that the Plan must “provide for the determination and preservation of the reasonable dividend expectations of eligible members and other policyholders with policies that provide for the distribution of policy dividends, through establishment of a closed block or other method acceptable to the Commissioner.” Article VIII of the Plan states that Anthem Insurance has no Policies (as defined in the Plan) or other insurance policies or health care benefit contracts or certificates that require the payment of dividends or as to which any person has any reasonable expectation for the payment of dividends. Accordingly, no closed block or any other method has **been** established to provide for the determination or preservation of reasonable dividend expectations of Eligible Statutory Members or policyholders.
49. Robert H. Dobson, Dale S. **Hagstrom** and Daniel J. McCarthy, consulting actuaries for Milliman USA, stated in their actuarial opinion dated June **18, 2001** that Anthem Insurance and **its predecessors** have paid no policyholder dividends for more than **twenty-five** years and that **almost all** policies are silent as **to dividends**. They **also** noted that Anthem Insurance has no individual life insurance policies or annuity contracts in **force** nor has it ever issued any such contracts. Milliman’s consulting actuaries concluded that the omission of the closed **block** under these circumstances “is fair and reasonable.” Mr. McCarthy testified to the same effect at the hearing.

VII. The Department’s Witnesses

50. The Department presented three expert witnesses to testify concerning the Application and the Conversion. These witnesses were retained by the Department, at the Anthem **Insurance’s** expense pursuant to Indiana Code 27-15-16-3, to review the Application, the Plan and other matters relating to the Conversion.
51. Darryl Wagner, a Partner of Arthur Andersen LLP, a Fellow of the Society of Actuaries, and **a Member** of the **American Academy of Actuaries**, testified as to the actuarial aspects **of** the Plan **and** explained the review of Anthem **Insurance’s** proposed allocation of consideration among **Eligible Statutory Members** undertaken by Arthur Andersen **LLP**. Based **on** his review, **Mr.** Wagner delivered an opinion, dated October **8, 2001** that the **actuarial methods** and underlying assumptions used in the **allocation** of consideration as described **in Anthem’s Plan** of Conversion and the Actuarial Contribution Memorandum appear **reasonable** and appropriate and the resulting allocation of **consideration** appears **reasonable, fair,** and equitable from **an actuarial** perspective, **and takes** into account the proportional contribution to A&em’s surplus of **each** class of **Eligible Statutory Members**. **Mr.** Wagner also **concluded** in his opinion that the absence of a closed block appears reasonable and appropriate (Hearing Exhibits D-1 and D-6).
52. John Quinn, a Partner of **PricewaterhouseCoopers** LLP and a **certified** public accountant with the designations of CLU and FLMI, testified as to the review of the accounting and auditing **aspects** of the Plan. Mr. Quinn testified as to the review of (i) the integrity, accuracy, and completeness of financial information contained in the Member Information **Statement**, (ii) the company’s planned procedures to ensure the accuracy, completeness and **overall** integrity of in force **records** used to determine eligibility for and

allocation of consideration, and (iii) the company's implementation of a reasonable process with appropriate controls **in place** to ensure a complete and accurate (a) printing of Statutory **Member** materials, (b) **mailing** of packages to Statutory Members and (c) tabulation of votes of the Statutory Members. Mr. Quinn concluded that, as of the date of his testimony, **PricewaterhouseCoopers** had not encountered any matters or issues that have **not been** resolved to the satisfaction of the Department and its advisors (Hearing Exhibit D-2).

53. John Hompe, a Managing Director of the Corporate Finance Group of Fox-Pitt, Kelton Inc., testified as to financial aspects of the Conversion. Based on various factors and relying upon the accuracy and completeness of financial and other information provided to it, Fox-Pitt, Kelton rendered an opinion to the Department dated October 11, **2001**, which concluded that "the Aggregate Consideration provided to- Eligible Statutory Members of Anthem Insurance, and its subsidiaries as a group, in exchange of their aggregate **Membership** Interests is greater than the Statutory Surplus of Anthem Insurance and is **fair to Eligible Statutory Members**, in the aggregate, from a financial point of view." The opinion of Fox-Pitt, Kelton takes into **account** the offering of the Equity Security Units contemplated by the company and the expected additional proceeds that would be included in the Aggregate Consideration for Eligible Statutory Members (Hearing Exhibits D-3 and **D-7**).

VIII. Communications With Other State Regulatory Agencies

54. Anthem Insurance or **its subsidiaries** conducts business primarily in Indiana, Kentucky, Ohio, Connecticut, New Hampshire, Maine, Colorado and Nevada. Although the Department has sole insurance regulatory jurisdiction over the Conversion, the **Department** and **its** advisors have **communicated** with the insurance departments and other **regulatory agencies of each of these other** states. In addition to completing all **necessary filings** in other **states** in connection with the Conversion, Anthem Insurance has also **provided information to these** state agencies and communicated with them. An **informational meeting concerning** the Conversion was held by the Kentucky Insurance Department **on September 19, 2001** in Frankfort, Kentucky, the state capital, and was attended by **members of the Department's** staff and advisors.
55. The Department received **correspondence** containing several questions from the Attorney General of **the Commonwealth** of Kentucky (the "Kentucky Attorney General") generally **regarding the allocation of consideration** to Eligible Statutory Members, in particular to those with **policies issued by Anthem Insurance's subsidiaries** located in Kentucky. The Department **requested that Anthem Insurance** submit responses to these questions directly to the **Kentucky Attorney General**. Following Anthem Insurance's response, a copy of which **was provided to the Department**, the Commissioner received a copy of the report prepared on **behalf** of the Office of the Kentucky Attorney General concluding that the general methodology for **determining** the eligibility and defining the actuarial contributions provides fair recognition to the pre-merger value of Southeastern Mutual Insurance **Company**, the Kentucky-domiciled mutual insurance company merged into the company in **1993**, and that the Plan provides a fair and equitable distribution of value to

and among policyholders of Anthem Insurance in the Commonwealth of Kentucky (Hearing Exhibit D-4).

56. Superintendent **Iuppa** of the Maine Bureau of Insurance submitted a letter dated August **23, 2001** in which the Superintendent raised concerns regarding potential diminishment of commitments made by Anthem Insurance in connection with its acquisition, of the assets of the former Blue Cross/Blue Shield of Maine (Hearing Exhibit **D-4**). The Conversion does not **affect** the obligations of Anthem Insurance to comply with the requirements of **laws** of the other states in which, it or its subsidiaries conduct business nor does it alter any commitments previously made by Anthem Insurance to regulators in those states. Superintendent **Iuppa** also raised an issue regarding the lack of disclosure of an outstanding appeal (the "Maine Appeal") filed by the Attorney General of the State of Maine and by Consumers for Affordable Health Care. The Commissioner finds that the circumstances surrounding the Maine Appeal have been adequately disclosed in the Member Information Statement (Part 2, page 98 and page F-22). The Conversion **does** not affect the Maine Appeal.
57. Representatives of **Anthem** Insurance testified at the hearing that they were not aware of any other outstanding unresolved issues as of the date of the public hearing with respect to any requests **of** the regulators in the other states in which it or its subsidiaries conducts business.

IX. Consideration of the Comments and Discussion

58. Under Indiana Code **27-15-8**, the Commissioner must approve the Application and permit the **Conversion and the amendment** to the Articles of Incorporation of Anthem Insurance if **she** determines: (i) that the amount and form of consideration to be distributed to **Anthem Insurance's** Eligible Statutory Members is fair in the aggregate and to each member class; (ii) that the Plan and the amendment to Anthem **Insurance's** Articles of **Incorporation** comply with applicable laws; (iii) that the term of the Plan is fair, **reasonable, and equitable to Eligible Statutory Members**; (iv) that the terms of the Plan **will not prejudice the interests** of the other **policyholders** of Anthem Insurance and (v) that **the** total consideration provided to Eligible Statutory Members upon the extinguishing of the Membership Interests is equal to or greater than the surplus of **Anthem Insurance**.
59. **The Commissioner and** the other representatives of the Department present at the hearing **questioned the representatives** of Anthem Insurance and their advisors.
60. The **Commissioner's role** under the Indiana **Demutualization** law is to determine whether or not the **applicant** has complied with the legal standards set **forth** in Indiana Code 27-15-8. **In** doing so, the Commissioner is not at liberty to change the existing Articles of Incorporation, **By-Laws, records** or insurance **policies** of Anthem **Insurance**. For example, **while** an **argument** can be made by commenters such as Citizens Financial **Group** and **Charles Storms** that employers who contributed a substantial portion of the premiums **for a group** policy **should** receive the consideration from the Conversion, such

argument is not supported by the Articles of Incorporation, By-Laws, insurance policies or other records of Anthem **Insurance**.

61. The Segal **Company**, on behalf of the **Westport** Public Schools, has expressed a concern that **governmental** bodies in Connecticut might receive stock, which they are not permitted to own under Connecticut law. If any of those or similarly situated entities receive stock when they have not elected to receive stock, such governmental entities can sell **the** stock, as the comment recognizes. The Commissioner notes that some large holders of **stock** may be restricted to some extent in **making** sales by the **Large Holder Sale Program Procedures and Restrictions** contained in Exhibit E to the Plan. **However**, Section 6.2(b) of the Plan authorizes Anthem, Inc. to consent to a transfer upon the written request of the holder. In addition, the Commissioner, upon a showing of good cause by Anthem, Inc., can consent to the modification or revision of the **Large Holder Sale Program Procedures and Restrictions**.
62. **Representatives** of the Citizens Action Coalition of Indiana, Community Catalyst of Boston, Massachusetts and the Lafayette Urban Ministry of Lafayette, Indiana presented written **comments and testimony** urging that Anthem Insurance should make several commitments to the communities in which they operate before the Plan is approved. Among the conditions suggested were **commitments** to require the company to maintain the same level of community **benefits**, employment **levels** and **adequate** provider networks. After **careful** consideration, the **Commissioner** has determined not to impose these **proposed requirements** as **conditions** to approval of this Plan. The Commissioner **notes that Anthem Insurance and** its subsidiaries operate in **eight** states, including **Indiana**. It is not appropriate for Indiana to regulate the operations of Anthem in seven **other states**. The **proposed** commitments relate more to the business and **future operations of Anthem Insurance and** its subsidiaries and do **not** seem to have a strong or **direct relationship to** the Conversion itself. Moreover, it **does** not appear that the issues **that the proposed commitments are intended to address are** unique to Anthem Insurance **but are potentially applicable to broad** segments of **the** for-profit health benefits industry. **The Department has** continuing **jurisdiction** over improper practices of health insurers. The **Conversion** will not change the ability of the Department to conduct examinations or **enforce its requirements**.
63. **DeAnne Woodford** of United Senior Action, Indianapolis, Indiana requested a health impact **study** as did Julia Vaughn, Health Policy Coordinator of the citizens Action **Coalition** of Indiana. The Commissioner **will** review the potential use of a health impact study **as part of its** continuing regulatory oversight of Anthem Insurance.
64. One **commenter**, David C. Litton of Hartford, Connecticut, raised a concern about whether **the receipt of consideration** by Eligible Statutory Members who are also Medicaid **recipients** might render them ineligible for future Medicaid assistance in **Connecticut**. **While the** Commissioner **will** not impose any specific requirement on Anthem **Insurance** with regard to such Eligible Statutory Members, the Commissioner **expects Anthem** Insurance to use its **best** efforts, in conjunction with **the** Connecticut **Department of Insurance or** any other regulatory agencies, to assure that **Eligible**

Statutory Members who also receive Medicaid assistance preserve and maintain their Medicaid benefits with minimal administrative difficulty.

65. Comments were received that mentioned problems that certain commenters had with respect to the mailing of the demutualization materials, the responsiveness of Anthem Insurance to requests for information, the quality of health care delivered, eligibility issues or issues concerning the calculation of consideration, Anthem Insurance was requested at the hearing to respond to each of these particular situations in writing to the individual who made the comment. Moreover, Section 12.1(i) of the Plan provides that any dispute concerning the right to receive consideration will be determined in accordance with the Plan, Indiana Code 27-15 or such other procedures as may be acceptable to the Commissioner. Accordingly, disputes concerning the right to receive consideration can be determined in accordance with the Plan. None of those issues, which related to a limited number of individual situations, presented a good or persuasive reason why the Conversion should not be approved. However, as an additional safeguard, the Commissioner will require, as a condition to the approval of the Plan, that the Department be advised in writing by Anthem Insurance concerning its resolution of any dispute as to the identity of the holder of a policy, the right to receive consideration, the amount of consideration to be paid or whether a policy is in force. Unless the Commissioner objects to Anthem Insurance's resolution of a dispute within ten business days of the Department's receipt of Anthem Insurance's statement as to its resolution of the dispute, such resolution shall be deemed approved by the Commissioner.
66. Indiana Code **27-15-3-2(4)** requires the Application to contain information as to any plans to "seil or issue stock to any person, including any compensation or benefit plan for directors, officers, or **employees** under which stock may be issued.. ." Section 12.5 of the Plan provides that for a period of six months following the effective date of the Plan neither Anthem, Inc. nor Anthem Insurance nor any of their subsidiaries, will make any grants of common stock or options to purchase common stock to any director, executive officer or member **of a** specified group of additional senior management executives (approximately **50** in number) of Anthem, Inc. and Anthem Insurance. Such directors, officers and senior management executives are herein **referred** to as the "Anthem Restricted Group." Item **4(d)** of the Application also mentions that Anthem, Inc. intends to adopt an Employee Stock Purchase Plan pursuant to which employees may purchase up to **\$25,000** in stock in any calendar year. The Member Information Statement (Part 2, page 108) states that the company anticipates implementing the stock purchase plan by Mid 2002. The Plan does not contain any restrictions on the Anthem Restricted Group purchasing common stock of Anthem, Inc. in the **IPO** or within a limited period of time following the **IPO**. In other demutualizations pending or completed in other states, such as Principal Mutual Holding Company (Iowa) and Standard Insurance Company (Oregon), directors and executive officers have been restricted from purchasing stock of the holding company until six months after the completion of the initial public offering. Demntualizations completed under New York law, such as **one** involving Metropolitan Life Insurance Company, have had a two-year statutory restriction on stock purchases by officers, directors and immediate family members. In two letters dated October **8**, 2001 and October 1 I, **2001** from **Tibor Klopfer** of Baker **&** Daniels, legal advisor to Anthem **Insurance**, to the **Department**, Anthem Insurance sought to have no restrictions imposed

on such stock purchases. In a letter dated October 12, 2001, **from** Fox-Pitt, Kelton Inc., the Department's financial advisor, restrictions imposed on purchases in other demutualizations was discussed as well as general views on such restrictions by the investor **community**. The Commissioner has determined, in order to assure that the Plan is fair, reasonable and equitable to Eligible Statutory Members, that it is appropriate and necessary for a six-month restriction on the purchase of common stock of Anthem, Inc. to be imposed on the Anthem Restricted Group and certain members of their immediate families.

67. In summary, the Commissioner has considered all of the comments and testimony that are relevant to the factors that the Commissioner must consider in deciding whether or not to approve the Conversion. The Commissioner finds that those issues are sufficiently addressed by the Plan, the Application, the Exhibits, the testimony of the representatives of Anthem Insurance and the conditions set forth herein. The Commissioner finds that the Member Information Statement contains adequate disclosures for the **Statutory** Members to make an informed decision about the Plan and related **matters**. Furthermore, the Commissioner finds that the Plan, the Indiana Demutualization Law and other provisions of the Indiana Insurance Code contain sufficient safeguards to protect against various potential abuses or problems described in the comment letters and the testimony.
68. Following the Conversion, Anthem Insurance will have substantially the same assets, liabilities and capital as before. Any net proceeds of the IPO will provide Anthem, Inc. with increased financial resources. The Conversion will not reduce Anthem Insurance's ability to pay claims and benefits to its policyholders. Under the Plan, the Membership Interests of Eligible Statutory Members will be exchanged for either a stock ownership interest in Anthem, Inc. or cash, an economic benefit that is not available without the Conversion. As shareholders of Anthem, Inc., Members will have the right to vote for the directors of Anthem, Inc. and the right to receive any shareholder dividends that Anthem, Inc., may declare. The Commissioner finds that a Closed Block is not necessary to protect the reasonable dividend expectations of policyholders and no other method for such **protection is** necessary for the reasons set forth in Part VI of this **Order** entitled "Closed Block." Based on a review of the provisions of the Application, the Plan, the Exhibits, the written comments and the testimony given at the public hearing, there is no credible **evidence** that Anthem Insurance's policyholders or Statutory Members would be harmed or **prejudiced** in any material respect by the adoption and implementation of the Plan.
69. Anthem Insurance has presented substantial credible evidence that its Amended and Restated **Articles of Incorporation** and implementation of the Plan would be beneficial to Anthem **Insurance** and its policyholders and Statutory Members by, among other things, allowing **Anthem Insurance** to grow through enhanced financial stability and access to capital, and to improve its financial strength. Anthem Insurance's financial advisor, Goldman, **Sachs & Co.**, and the Department's financial advisor, Fox-Pitt, Kelton Inc. each provided a fairness opinion that the transaction was fair from a financial point of view to policyholders who are Eligible Statutory Members of Anthem Insurance taken as a group. Both Goldman; Sachs **& Co.** and Fox-Pitt, **Kelton Inc.** **each** also opined that the

aggregate amount of consideration to be distributed to policyholders was greater than the statutory surplus of Anthem Insurance.

CONCLUSIONS OF LAW

1. The Commissioner concludes that the Application includes the documents and information required by Indiana Code 27-15-3-2. The Commissioner **concludes** that Anthem Insurance has complied with the notice and publication requirements of Indiana Code 27-15-4-4 and Indiana Code 27-15-4-5.
2. The Commissioner concludes that Anthem Insurance has demonstrated that the methodology used to determine the amount and allocation of policyholder consideration is fair to Eligible Statutory Members.
3. The Commissioner concludes that Anthem Insurance has demonstrated that the Plan meets the requirements of Indiana Code 27-15-2-2. In particular, the Commissioner concludes Article V, VI and VII of the Plan and Plan Exhibit **E** thereto are fair, reasonable and equitable. The omission of the Closed Block, as discussed in Article VIII of the Plan and the actuarial opinions of Milliman USA, is acceptable.
4. The Commissioner concludes that the Application is properly supported by the required documents and testimony and meets all of the requirements of the Indiana Demutualization Law.
5. The Commissioner concludes, as required by Indiana Code **27-15-4-8**, that Anthem Insurance has sufficiently **demonstrated: (i)** that the amount and form of consideration to be distributed to Anthem Insurance's Eligible Statutory Members is fair in the aggregate and to each member class; **(ii)** that the Plan and the amendment to Anthem Insurance's Articles of **Incorporation** comply with the Indiana Demutualization Law and other applicable **laws**; **(iii)** that **the** terms of the Plan are fair, reasonable, and equitable to Eligible Statutory Members; **(iv)** that the terms of the Plan **will** not prejudice the interests of the other policyholders of Anthem Insurance and **(v)** that the total consideration provided to **Eligible** Statutory Members upon the extinguishing of the Membership Interests is **equal** to or greater than the surplus of Anthem Insurance.
6. The Commissioner hereby approves the Amended and Restated Articles of Incorporation and the Plan of Conversion conditioned upon: **(i)** Anthem Insurance obtaining any **subsequent** approvals **relating** to the IPO or Other Capital Raising Transactions required by Section **1.6** of the Plan; **(ii)** Anthem Insurance obtaining the reaffirming opinions required by Article IV **of** the Plan and the **reaffirming** opinions **of** Milliman USA; **(iii)** submission to the Department by Anthem Insurance of any Tax Opinions (as defined in the Plan) and a ruling from the Internal Revenue Service (if deemed appropriate), as required by Section 1.4 of the Plan regarding the tax consequences of the Conversion; **(iv)** approval of appropriate Articles of Amendment of Anthem Insurance, as required by Section 1.2 **of the** Plan; **(v)** approval of the Plan and the Amended and Restated Articles of **Incorporation** of Anthem **Insurance** by the Statutory Members of Anthem Insurance as **required** by **Indiana Code 27-15-5-7**; **(vi)** the **restrictions on Anthem, Inc. stock purchases**

by the Anthem **Restricted** Group and members of their immediate families set forth in paragraph 3 of the **Order** being imposed; and (vii) certain additional dispute resolution procedures **being** implemented.

7. The Commissioner hereby approves the execution by Anthem Insurance of the corporate guarantees substantially in the forms attached to the Indiana Form D Filing.

NOW, THEREFORE, the Commissioner hereby ORDERS:

1. The proposed Conversion of Anthem Insurance and the Amended and Restated Articles of Incorporation of Anthem Insurance, pursuant to and subject to the terms and conditions of the Application and all Exhibits thereto, the Plan and all Exhibits thereto, as supplemented at the **Hearing**, the Hearing Exhibits, and these Findings of Fact, Conclusions of Law and Order are hereby APPROVED. The proposed execution by Anthem **Insurance** of the corporate guarantees substantially in the forms attached to the Indiana Form D Filing is hereby APPROVED.

2. The implementation of the Plan is hereby conditioned upon (i) Anthem Insurance obtaining any subsequent approvals relating to the IPO or Other Capital Raising Transactions required by Section 1.6 of **the** Plan; (ii) Anthem Insurance obtaining the reaffirming opinions required by Article IV of the Plan and the reaffirming opinions of Milliman USA; (iii) submission by Anthem **Insurance** of any Tax Opinions and a ruling from the Internal Revenue Service, (if deemed appropriate), as required by Section 1.4 of the Plan regarding the tax consequences of the **Conversion**; (iv) approval of **appropriate** Articles of Amendment of Anthem Insurance, as required by Section 1.2 of the Plan; (v) approval of the Plan and the Amended and Restated Articles of Incorporation of Anthem Insurance by the Statutory Members of Anthem Insurance as required by Indiana Code 27-15-S-7; (vi) the restrictions on Anthem, Inc. stock purchases by the **Anthem Restricted Group** and members of their immediate families set forth in

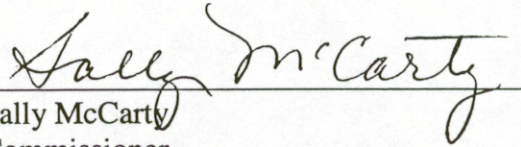
paragraph 3 of the **Order** being **imposed**; and (vii) certain additional dispute resolution procedures **set forth in paragraph 4 of the Order** being **imposed**.

3. **For** a period of six months following the effective date of the Plan, no member-of the Anthem Restricted Group (or any parent, spouse of a parent, child, spouse of a child, **spouse**, brother or sister; **including** any step and adoptive relationships of such member of the Anthem **Restricted** Group) shall, directly or indirectly, acquire in any manner beneficial ownership of **or** a pecuniary **interest** in common stock of Anthem, Inc. or any other securities **issued** by Anthem, Inc. **within the** six months following, the effective date of the Plan. Anthem, Inc. and Anthem Insurance **shall implement** appropriate procedures to assure compliance with these **restrictions**.

4. **Anthem Insurance** shall promptly advise the Department in writing **concerning its resolution** in **connection** with the Conversion of any dispute as to the identity of **the holder of** a policy, the right to **receive consideration**, the **amount** of consideration to be paid **or whether a policy** is in **force**. **Unless the Commissioner objects** to Anthem **Insurance's resolution of a dispute** within **ten business** days of the Department's receipt of Anthem **Insurance's** statement as to its resolution of the dispute, such **resolution** shall be deemed approved by the **Commissioner**.

5. Any **finding of** fact, designated as **such, which** is more appropriately a **conclusion** of law, and any **conclusion** of law, **designated** as **such, which is** more appropriately a **finding of fact**, shall be accorded **the proper** character and **construed so as** to give effect to all the **provisions** herein.

6. This Order constitutes an agency action by the Commissioner for purposes of Indiana Code 27-15-15. Any person who is aggrieved by this Order may petition for judicial review of this Order under Indiana Code 4-21.5-5. All petitions for judicial review of, and any action challenging the validity of or arising out of this Order, must be filed not later than thirty (30) days after the date of this Order. The Commissioner retains jurisdiction to the extent necessary to ascertain compliance with this Order and the requirements of the Plan.


Sally McCarty
Commissioner
Indiana Department of Insurance

Dated: October 25, 2001.